METRO
CREDIT UNION

MAY 28'14 AM11:02 BOARD

May 6, 2014

Secretary of the Board
National Credit Union Administration
1775 Duke Street,
Alexandria, Virginia 22314-3428

Dear NCUA:

Metro Credit Union (Metro) appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital. Metro serves 175,000 members in eastern Massachusetts and with $1.3 billion in assets is the second largest credit union in the Commonwealth. Metro appreciates the NCUA's desire to implement risk based capital to maintain the financial strength of the credit union industry. However, based on our analysis of the proposed rule, we have comments and suggested changes that we believe deserve consideration.

Metro suggests that the NCUA remove from the proposed rule the ability of examiners to arbitrarily adjust the level of required risk based capital for individual institutions. We believe it is in the best interests of all credit unions to know with certainty the capital standards against which they will be measured. Consistent application of the proposed rule is necessary so that all credit unions, including Metro, can plan accordingly. Ambiguous requirements would render the proposed rules impractical for credit unions to effectively manage their balance sheet and capital level.

Metro also suggests that the NCUA consider an implementation period of at least 36 months to provide credit unions adequate time to adjust the balance sheet in preparation for the final rules. While Metro projects that it will remain well-capitalized under the proposed rules, we believe that all credit unions should have the opportunity to restructure their balance sheet in order to remain adequately capitalized.

The proposed rule attempts to regulate interest rate risk and concentration risk. We believe the most effective method for credit unions to address interest rate and concentration risk is comprehensive policies and procedures that define, measure and manage these items. The proposed rule would unfairly penalize institutions with smaller assets or field of membership which have limited expansion and diversification opportunities. These institutions may have a concentration of loan portfolios or investments and would likely have reduced regulatory capital under the proposed rules.

Metro Credit Union
200 Revere Beach Parkway
P.O. Box 9100
Chelsea, MA 02150-9100
877-MY-METRO
metrocu.org

The proposed rule appears to expressly discourage increased member business and real estate lending because of the tiered risk weights assigned to these loans. Currently, member business loans comprise only 5.5% of Metro's balance sheet and we project modest growth of this portfolio. We expect that Metro would curtail originations of member business loans as we approach the 150% risk weighting threshold. In our opinion, the marginal return on additional assets would not outweigh the 150% risk weight of these assets. Therefore, in order to encourage credit unions to continue to expand available credit to businesses, we suggest that the NCUA amend the proposed rule to risk weight all member business loans at 100%, regardless of the percentage of total assets.

Metro also disagrees with the real estate loan ratings as proposed. These assets are generally underwritten to conservative secondary market standards and the level and mix of these assets is best managed through the asset and liability management program. Therefore, we suggest that the NCUA consider a fixed risk rating of 50% for these assets.

Metro invests primarily in agency fixed rate residential mortgage-backed securities of moderate duration to provide consistent cash flow and yield with conservative credit quality. Because of the limited investment opportunities and credit characteristics of the investments generally available to credit unions, we suggest that the NCUA apply a flat risk weighting to investments based on the credit quality of the assets, with 20% for treasury and agency securities and federally insured deposits.

Metro has completed a number of mergers in recent years, with credit unions of asset sizes ranging from $1.5 million to $70.0 million. These mergers have provided both expanded product offerings for members and enhanced employment opportunities for employees of the merged institution. We evaluate the impact of proposed mergers to our balance sheet, including the potential for goodwill and the treatment of goodwill.

We expect that the combination of the exclusion of goodwill from eligible capital and the risk weights for real estate and business loans could inhibit our ability to complete mergers under the proposed rule. In our experience, the items which most impact the amount of recorded goodwill includes the loan credit quality and capital level of the potential merger partner. Because each institution's balance sheet is unique, the extent to which these items would be a detriment to our ability to complete a merger is difficult to estimate. However, based on our past merger experience, we believe that even with our projected well-capitalized rating under the proposed ruling, the mutually beneficial effects of a merger could be substantially diminished because of the potential dilution of capital. Under the proposed ruling, we anticipate that the NCUA would have increased difficulty finding a potential merger partner for an institution with poor loan credit quality, diminished capital, or a concentration of real estate or business loans. We therefore again suggest that the NCUA consider adjusting the risk weight to all real estate and business loans to 50% and 100%, respectively.

Metro's current regulatory capital level of 9.68% is 2.68% above the well-capitalized level of 7.00%. We estimate that our risk based capital under the proposed rule would initially be 12.49%, or 1.99% above the well-capitalized level of 10.50%. Our position regarding the desired capital level for the credit union may change over time due to factors such as the economic environment, interest rates and the balance sheet size and composition. However, as a credit union, we strive to provide enhanced products and services and to expand credit to our members when possible. We believe that the proposed rule, if implemented as is, would limit our opportunities for organic and merger growth in the future. Again, thank you providing us the opportunity to express our views on the proposed ruling.

Sincerely,

Robert M. Cashman
President/Chief Executive Officer